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TAGS: ECON EFIN EINV ETRD KIPR PGOV NI
SUBJECT: Southern Nigeria Economic Update

¶1. (U) Summary: Lagos analysts estimate that Nigeria's inflation rate is as high as 10.97 percent in contrast with the 4.8 percent recorded by the Bureau of Statistics in July. A major Lagos textile mill, Atlantic Textile Mill, was forced to close because of unfavorable business environment, making 2,000 workers redundant. Physicians from hospitals in Lagos, Akwa Ibom and Anambra will assess next steps following President Yar'Adua's announcement that health care would no longer be provided by local governments. End summary.

¶2. (U) This economic update includes:
-- Lagos Analysts Say Inflation Near 11 Percent
-- More Job Losses as Lagos Textile Factory Shuts Down
-- GON Takes Over Health Sector from Local Governments

Lagos Analysts Say Inflation Nears 11 Percent

¶3. (U) Analysts at Financial Derivatives Company (FDC), a Lagos based financial consulting firm, estimate the inflation rate at 10.97 percent. This contrasts with the estimate published recently by the National Bureau of Statistics (NBS) which estimated the year-on-year inflation rate for July at 4.8 percent, down from 6.4 percent recorded in June. FDC reported that prices of some commodities including kerosene (180 percent) and candles (45 percent), rose significantly due mainly to poor electricity supply. Prices of food items, notably maize and bread, increased marginally. (Note: During the recent bakers strike, the price of bread increased by 30-40 percent. Again last week, the price of bread soared by 25-30 percent to naira 150-160 (USD 1.20-1.28) per 900 grams when the price of a unit of wheat flour increased by 700 naira (approximately USD 5.60). End Note)

¶4. (U) Analysts also said interest rates for overnight deposits opened in August at 6.5 percent and rose to 7.3 percent because of withdrawal of 19.5 billion naira (USD 150 million) Nigeria National Petroleum Corporation (NNPC) funds from banks. Rates closed the month at 5.8 percent, with the injection of 469 billion naira (USD 3.6 billion) monthly statutory allocation to states and local governments.

¶5. (U) The Wholesale Dutch Auction (WDAS) of the Central Bank of Nigeria (CBN) offered USD560 million in August, 30 percent less than the previous month; total offer taken up by banks also declined by 44.4 percent to USD557.6 million. The naira appreciated to 126.2 naira against the dollar, up from 127.1/USD in July.

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More Job Losses as Lagos Textile Factory Shuts Down
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¶6. (U) Atlantic Textile Mills, a leading local manufacturer of

African print and wax fabrics closed its flagship Lagos factory in September. The mill, which employed some 2,000 workers, cited unfavorable business conditions and poor infrastructure, particularly the high cost of generating electric power, as major reasons for the closure. Members of the National Union of Textile and Garment Workers of Nigeria (NUTGWN) decried the high cost of diesel, which most industries use to power electricity generating sets. Diesel costs between 85 naira and 95 naira per liter. On average, a medium sized manufacturing company spends 20 million naira monthly on power generation.

¶7. (U) Over 33 textile mills across Nigeria have closed down in the last 3 years, resulting in a loss of some 500,000 jobs directly and indirectly in the industry. In early September, Kaduna-based United Nigerian Textile Limited (UNTL) was forced to make 10,000 workers redundant because of high cost of production and lack of competitive edge against cheaper smuggled textiles.

¶8. (U) Meanwhile, the United Bank for Africa (UBA) plans to raise 70 billion naira on behalf of the Government of Nigeria (GON) to revitalize the textile industry. Local press reports that the bank will provide the funds to the GON for onward lending to textile manufacturers, at a single-digit interest rate. It is not clear how the bank plans to raise the money; however, local financing was sought after the GON failed to meet the requirements for raising the funds through Eurobonds.

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GON Takes Over Health Sector from Local Governments
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¶9. (U) Local governments (LGs) will no longer be responsible for the provision of primary health care. In press reports, the task force set up by President Yar'Adua to review the National Health Policy noted that primary health care, upon which 80 percent of the population depended, was wrongly placed in the charge of local governments which have little capacity to adequately provide the service.

¶10. (U) The task force noted that over 18 billion naira had been deducted, with little or no justification given, by state governments from local governments' share of statutory allocations intended for primary health care delivery in the local government areas. The Obasanjo administration had awarded a contract for the construction of Comprehensive Primary Health Care Centers (CPHCC) in each of the 774 local government areas between March and June 2007 to a local firm, Mathan Nigeria Limited. Funds for the CPHCC projects were being deducted from the federation account until President Yar'Adua stopped the deductions in August and set up a panel to investigate the contracts. The firm claims to have received only 14.8 billion naira, of which 5 billion naira had been spent on the project.

¶11. (U) In addition, the GON has set up a ministerial committee to assess the health sector and proffer solutions. The committee headed by Professor Akin Osibogun of the Lagos University Teaching Hospital, also has as members; Dr. Obehi Okojie, University of Benin; Dr. Ibanga Iyang, University of Uyo; and Dr. Goz Ifeadike, Nnamdi Azikiwe University Teaching Hospital, Anambra.

¶12. (U) There are indications that the 2008 budget proposal to reduce local government allocations from 20.6 percent to 15.21 percent may be a result of the withdrawal of LGs' responsibility to provide such services as healthcare. LGs will still provide water and education for the people. If approved, federal and State governments' share of the federation account will increase from 52.68 percent and 26.72 percent to 53.69 percent and 31.1 percent respectively.
McConnell